

Message Text

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PAGE 01 BONN 00765 01 OF 03 141350Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 L-03 H-01 PA-01 PRS-01 USIA-06
CIAE-00 INR-07 NSAE-00 SIL-01 LAB-04 COME-00 TRSE-00
HEW-04 CEA-01 EURE-00 /055 W
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P R 141335Z JAN 77

FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 4698
INFO AMCONSUL BREMEN
AMCONSUL DUSSELDORF
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LIMITED OFFICIAL USE SECTION 01 OF 03 BONN 00765

E.O. 11652: N/A
TAGS: ELAB, SOCI, PINT, GW
SUBJECT: OLD AGE PENSIONS REMAIN DOMINANT POLITICAL
ISSUE
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PAGE 02 BONN 00765 01 OF 03 141350Z

REF: (A) BONN 20954 (76); (B) BONN 20857 (76); (C) BONN 18431 (76)

SUMMARY: THE CONTINUING DEBATE ON PENSIONS IN GERMANY
AFTER CHANCELLOR SCHMIDT'S DECEMBER 16 POLICY STATE-
MENT SHOWS THAT THE FINANCIAL VIABILITY OF THE OLD
AGE PENSION SYSTEM REMAINS THE DOMINANT ISSUE ON THE

DOMESTIC POLITICAL SCENE. DEBATE IS STILL MOSTLY POLEMICS AND HAS ONLY TANGENTIALLY FOCUSED ON THE CRUX OF THE PROBLEM: THAT THE GROWTH OF THE PENSION FUNDS' REVENUES HAVE NOT KEPT PACE WITH OUTLAYS.

THE MINISTRY OF LABOR'S ANNUAL ASSESSMENT OF THE PENSION SYSTEM, TO BE RELEASED BEFORE THE END OF JANUARY, IS EXPECTED TO INJECT SOME SUBSTANCE TO THE DEBATE BY INCLUDING A SET OF 15 "ALTERNATIVE MODELS" FOR REFORM (EACH BASED ON DIFFERENT ASSUMPTIONS) UPON WHICH A NEW GOVERNMENT INITIATIVE TO INSURE THE VIABILITY OF THE PENSION FUNDS COULD BE BASED. END SUMMARY.

1. IN HIS INAUGURAL POLICY STATEMENT TO THE BUNDESTAG ON DECEMBER 16, 1976, CHANCELLOR SCHMIDT HAD NOTED THAT THE GOVERNMENT HAD NOT EXPECTED SUCH A STRONG NEGATIVE REACTION TO ITS ORIGINAL PROPOSAL FOR DELAYING THE NEXT UPWARD, "DYNAMIC" ADJUSTMENT OF OLD AGE PENSIONS FOR SIX MONTHS. HE HAD SAID THAT A NEW GOVERNMENT PROGRAM WOULD BE SUBMITTED TO THE BUNDESTAG BY NEXT SPRING, BUT, IN THE INTERIM, REAFFIRMED THE DECISION (REPORTED REF A) THAT :

A) OLD AGE PENSIONS WILL BE INCREASED 9.9 PERCENT EFFECTIVE JULY 1, 1977. THE NEXT SO-CALLED "DYNAMIC" ADJUSTMENT WILL BE DUE ON JANUARY 1, 1979.

B) THE RATE OF OLD AGE INSURANCE CONTRIBUTIONS WILL BE UNCHANGED.
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PAGE 03 BONN 00765 01 OF 03 141350Z

C) BEGINNING ON JANUARY 1, 1979, ADJUSTMENTS WILL BE BASED ON THE TAKE-HOME PAY OF ACTIVE WORKERS (GROSS EARNINGS MINUS INCOME AND SOCIAL SECURITY TAXES). GROSS INCOME WILL STILL BE USED AT THE TIME OF RETIREMENT TO CALCULATE THE BASE PENSION.

D) THE OLD AGE INSURANCE SYSTEM WILL REDUCE PAYMENTS TO THE HEALTH INSURANCE FUNDS MADE IN COMPENSATION FOR THE GRANTING OF FREE MEDICAL SERVICES TO PENSIONERS.

2. SCHMIDT HAD EMPHASIZED THAT THE OLD AGE INSURANCE SYSTEM REPRESENTS A CONTRACT BETWEEN THE GENERATIONS, BETWEEN ACTIVE WORKERS AND PENSIONERS, AND WARNED THAT PENSIONERS MUST NOT OVERBURDEN THOSE WORKING NOW AND CONTRIBUTING TO THE SYSTEM.

3. AS MIGHT BE EXPECTED, CDU'S CHAIRMAN KOHL AND CDU'S STRAUSS HAD ROUNDLY CRITICIZED THE SCHMIDT GOVERN-

MENT'S HANDLING OF THE PROBLEM. THEY CHALLENGED THE GOVERNMENT TO PRESENT PRECISE DATA ON THE TRUE FINANCIAL STATUS OF THE OLD AGE INSURANCE SYSTEM BUT OFFERED TO COOPERATE IN WORKING OUT A RATIONAL SOLUTION; THE CDU, SAID KOHL, WOULD BE PREPARED TO CARRY OUT UNPOPULAR MEASURES BUT COULD NOT ACCEPT LEGISLATION BASED ON GOVERNMENT PROPOSALS SEEN SO FAR. STRAUSS CHARGED THAT THE GOVERNMENT PROGRAM WOULD LEAD TO A

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PAGE 01 BONN 00765 02 OF 03 141353Z
ACTION EUR-12

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H-01 PA-01 PRS-01 USIA-06 CIAE-00 INR-07 NSAE-00
SIL-01 LAB-04 COME-00 TRSE-00 HEW-04 CEA-01 EURE-00
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P R 141335Z JAN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 4699
INFO AMCONSUL BREMEN
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LIMITED OFFICIAL USE SECTION 02 OF 03 BONN 00765

LEVELING (OR EQUALIZATION) OF PENSIONS.

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PAGE 02 BONN 00765 02 OF 03 141353Z

4. UNION REACTION HAS BEEN STRONGLY CRITICAL OF THE GOVERNMENT'S HANDLING OF PENSION FUND REFORM. UNION ATTITUDES, AS EXPRESSED BY DGB PRESIDENT VETTER, REFLECT THE PRINCIPLE THAT NECESSARY BURDENS MUST BE EQUALLY SHARED BY THE ACTIVE WORKERS, PENSIONERS, AND EMPLOYERS. THE DGB REMAINS WILLING TO GO ALONG WITH THE PROPOSALS OF THE SOCIAL INSURANCE ADVISORY COUNCIL (REF A) WHICH, INTER ALIA, CALLED FOR DELAYING THE NEXT ANNUAL "DYNAMIC" INCREASE BY 6 MONTHS AND INCREASING CONTRIBUTIONS FROM 18 TO 19 PERCENT OF EARNINGS, TO BE SHARED EQUALLY BY THE WORKER AND THE EMPLOYER.

5. THERE IS INCREASING SPECULATION IN THE PRESS AND ELSEWHERE THAT, IN RESPONSE TO THIS CRITICISM, THE COALITION WILL HAVE TO MODIFY ITS PROPOSALS AS PRESENTED IN SCHMIDT'S POLICY STATEMENT. REPRESENTATIVES OF THE COALITION PARTIES HAVE BEEN MEETING ALMOST CONSTANTLY SINCE EARLY JANUARY TO DISCUSS PENSION REFORMS AND GOVERNMENT SPOKESMEN HAVE CONCEDED THAT, ALTHOUGH THE KEY ELEMENTS ANNOUNCED BY SCHMIDT (PARA 1 ABOVE) WILL REMAIN, SOME MINOR MODIFICATIONS ARE BEING CONSIDERED. CRITICS CLAIM, HOWEVER, THAT ADDITIONAL MEASURES, SUCH AS INCREASING CONTRIBUTIONS FROM 18 TO 19 PERCENT OR REQUIRING PENSIONERS TO SHARE THE COST OF HEALTH INSURANCE, ARE UNAVOIDABLE TO COVER THE DEFICITS PROJECTED FOR THE COMING YEARS.

6. REPORTS ON THE FINANCIAL STATUS AND FUTURE OF THE PENSION FUNDS BY VARIOUS SOCIAL AND ECONOMIC RESEARCH GROUPS AROUND, EACH ASSUMING A DIFFERENT SET OF ESTIMATES OF ECONOMIC GROWTH, WAGE INCREASES AND EMPLOYMENT TRENDS. IN SPITE OF MINOR VARIANCES, HOWEVER, MOST COME TO THE CONCLUSION THAT, UNLESS SOME GOVERNMENTAL ACTION IS TAKEN, RESERVES OF THE OLD AGE
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PAGE 03 BONN 00765 02 OF 03 141353Z

INSURANCE SYSTEM WILL BE EXHAUSTED BEFORE 1980. THE

FOLLOWING DATA, RECENTLY COMPILED BY THE ASSOCIATION
OF GERMAN OLD AGE PENSION INSURANCE SYSTEMS (ALSO USED
BY THE MINISTRY OF LABOR), PROVIDES THE FOLLOWING
ESTIMATES ON THE FUTURE OF FUND RESERVES:

A) IN THE ABSENCE OF ANY GOVERNMENT ACTION:

END OF 1976 DM 34.5 BILLION
END 1977 DM 18.5 BILLION
END 1978 DM 7.2 BILLION
END 1979 DM MINUS 4.6 BILLION
END 1980 DM MINUS 16.7 BILLION.

B) IF GOVERNMENT PROGRAM OUTLINED ABOVE (PARA 1) AND
REF A WERE ADOPTED:

END 1977 DM 21.5 BILLION
END 1978 DM 13.2 BILLION
END 1979 DM 4.4 BILLION
END 1980 DM MINUS 4.0 BILLION.

7. THE MINISTRY OF LABOR, WHICH HAS JURISDICTION OVER
SUCH SOCIAL QUESTIONS, IS CURRENTLY PREPARING ITS ANNUAL
ANALYSIS OF THE LONG AND SHORT RANGE PROSPECTS FOR THE
PENSION SYSTEM INCLUDING ITS RECOMMENDATIONS FOR
REVISIONS OF THE "DYNAMIC" ADJUSTMENT. THIS YEAR'S
REPORT IS MORE IMPORTANT THAN USUAL, NOT ONLY BECAUSE
OF HEADLINES THE PENSION FUNDS HAVE ATTRACTED, BUT
ALSO BECAUSE

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PAGE 01 BONN 00765 03 OF 03 141355Z
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LIMITED OFFICIAL USE SECTION 03 OF 03 BONN 00765

IT IS REPORTED THAT, RATHER THAN ACTUALLY PRESENTING A
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PAGE 02 BONN 00765 03 OF 03 141355Z

PROPOSAL FOR REFORMS, THE MINISTRY PLANS TO FORMULATE 15 DIFFERENT ALTERNATIVE MODELS, EACH A SOLUTION BASED ON A DIFFERENT SET OF ECONOMIC TRENDS. THESE MODELS WILL BE SUBMITTED TO THE BUNDESTAG, AFTER IT RECONVENES AFTER JANUARY 19, WHICH WILL THEN BE LEFT WITH THE DECISION OF WHICH MEASURES (AND ECONOMIC FORECASTS) IT IS DISPOSED TO ACCEPT.

8. COMMENT: REPRESENTATIVES OF ALL POLITICAL PARTIES HAVE DECLARED THEIR WILLINGNESS TO COOPERATE IN FINDING A "BALANCED AND SOCIALLY JUSTIFIED" SOLUTION TO THE PROBLEM, ALBEIT ON THEIR OWN TERMS. HOWEVER, THE INFLUENCE OF OUTSIDE NON-GOVERNMENTAL FORCES -- THE TRADE UNIONS, CONFEDERATION OF GERMAN EMPLOYERS ASSOCIATION, ETC. -- WILL HAVE TO BE TAKEN INTO ACCOUNT. IN ADDITION TO HAVING POLITICAL CLOUT, THEIR REPRESENTATIVES SIT ON THE EXECUTIVE BOARDS OF THE VARIOUS SEMI-AUTONOMOUS OLD AGE INSURANCE AGENCIES WHERE THEY WILL PLAY AN IMPORTANT ROLE IN PROPOSING AND CARRYING OUT ANY REFORM PROGRAM. A KEY ROLE BELONGS TO DGB VICE PRESIDENT GERD MUHR, WHO ASSUMED CHAIRMANSHIP OF THE ASSOCIATION OF GERMAN PENSION INSURANCE SYSTEM IN NOVEMBER 1976, SINCE THE DGB HAS LEFT NO DOUBT THAT IT WILL NOT GO ALONG WITH THE GOVERNMENT PROGRAM IN ITS

PRESENT FORM.

9. BY FOCUSING ON THE ISSUE OF THE POSSIBLE LEVELING OF PENSIONS, STRAUSS HIT A NERVE OF THE COALITION. MANY FDP SUPPORTERS ARE SALARIED AND TECHNICAL "WHITE COLLAR" WORKERS WHO, AS A GROUP, HAVE ENJOYED HIGHER PENSIONS BECAUSE OF HIGHER EARNINGS AND SUBSEQUENT HIGHER CONTRIBUTIONS IN THE PAST. IN FACT, BY A COMPLICATED SYSTEM OF TRANSFERS, A SO-CALLED "EQUALIZATION OF BURDENS", THE WHITE COLLAR EMPLOYEES' FUND HAS PROVIDED SUBSIDIES IN RECENT YEARS TO LESS SOLVENT WORKERS' FUNDS. NOW, FOLLOWING THE LIMITED OFFICIAL USE

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PAGE 03 BONN 00765 03 OF 03 141355Z

RECESSION, EVEN THIS FUND FACES A RESERVE PROBLEM AND IS LESS ABLE TO MEET ITS CURRENT OBLIGATIONS TOWARD THE WORKERS' FUNDS. STRAUSS IS PLAYING ON FEARS AMONG WHITE COLLAR WORKERS THAT THEIR HIGHER BENEFITS MIGHT BE SACRIFICED TO MAINTAIN OR RAISE BENEFITS FOR LOWER INCOME WORKER GROUPS WHO, BY AND LARGE, ARE SPD SUPPORTERS. STOESEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Errors: N/A
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Original Classification: LIMITED OFFICIAL USE
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TAGS: ELAB, SOCI, PINT, GE, (SCHMIDT, HELMUT)
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